

**VERMILION PARISH
WATERWORKS DISTRICT NO. 1**

Maurice, Louisiana

Financial Report

Year Ended December 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
BASIC FINANCIAL STATEMENTS	
Proprietary Fund Type - Enterprise Fund:	
Statement of net position	4
Statement of revenues, expenses and changes in net position	5
Statement of cash flows	6-7
Notes to basic financial statements	8-20
SUPPLEMENTARY INFORMATION	
Schedule of number of utility customers	22
Schedule of insurance in force	23
Comparative statements of net position	24
Comparative statements of revenues, expenses and changes in net position	25
INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Schedule of Current and Prior Year Audit Findings and Management's Corrective Action Plan	29-30

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Russell F. Champagne, CPA*
Victor R. Slaven, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Mixon, CPA*
Penny Angelle Scruggins, CPA
Christine C. Doucet, CPA

Wanda F. Arcement, CPA,CVA
Allen J. LaBry, CPA
Albert R. Leger, CPA,PFS,CSA*
Marshall W. Guidry, CPA
Stephen R. Moore, Jr., CPA,PFS,CFP®,ChFC®*
James R. Roy, CPA
Robert J. Metz, CPA
Alan M. Taylor, CPA
Kelly M. Doucet, CPA
Cheryl L. Bartley, CPA
Mandy B. Self, CPA
Paul L. Delcambre, Jr., CPA
Kristin B. Dauzat, CPA
Matthew E. Margaglio, CPA
Jane R. Hebert, CPA
Bryan K. Joubert, CPA
Stephen J. Anderson, CPA
W. Jeffrey Lowry, CPA

Retired:
Conrad O. Chapman, CPA* 2006
Tynes E. Mixon, Jr., CPA 2011
P. Troy Courville, CPA* 2013

* A Professional Accounting Corporation

OFFICES

183 South Beadle Rd.
Lafayette, LA 70508
Phone (337) 232-4141
Fax (337) 232-8660

450 East Main Street
New Iberia, LA 70560
Phone (337) 367-9204
Fax (337) 367-9208

113 East Bridge St.
Breaux Bridge, LA 70517
Phone (337) 332-4020
Fax (337) 332-2867

200 South Main Street
Abbeville, LA 70510
Phone (337) 893-7944
Fax (337) 893-7946

1234 David Dr. Ste 203
Morgan City, LA 70380
Phone (985) 384-2020
Fax (985) 384-3020

1013 Main Street
Franklin, LA 70538
Phone (337) 828-0272
Fax (337) 828-0290

408 West Cotton Street
Ville Platte, LA 70586
Phone (337) 363-2792
Fax (337) 363-3049

133 East Waddil St.
Marksville LA 71351
Phone (318) 253-9252
Fax (318) 253-8681

332 West Sixth Avenue
Oberlin, LA 70655
Phone (337) 639-4737
Fax (337) 639-4568

1428 Metro Drive
Alexandria, LA 71301
Phone (318) 442-4421
Fax (318) 442-9833

WEB SITE
WWW.KCSRCPAS.COM

INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Vermilion Parish Waterworks District No. 1
Maurice, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Vermilion Parish Waterworks District No. 1, a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Vermilion Parish Waterworks District No. 1, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2012 the Vermilion Parish Waterworks District No. 1 adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Vermilion Parish Waterworks District No. 1's basic financial statements. The supplementary information on pages 22 through 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013 on our consideration of the Vermilion Parish Waterworks District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kolder, Champagne, Slaven & Company, LLC

Certified Public Accountants

Abbeville, Louisiana
June 12, 2013

BASIC FINANCIAL STATEMENTS

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Statement of Net Position
December 31, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 751,508
Receivables, net of allowance for uncollectibles	307,680
Prepaid expenses	45,829
Total current assets	<u>1,105,017</u>

Restricted assets -

Revenue bond and interest sinking account	64,291
Revenue bond reserve account	255,502
Revenue bond contingency account	255,502
Revenue bond short lived asset account	91,267
Customer deposits	59,500
Total restricted assets	<u>726,062</u>

Capital assets, net	<u>25,035,995</u>
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Bond issue costs, net	<u>77,179</u>
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Total assets	<u>26,944,253</u>
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Deferred outflows of resources	<u>-</u>
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LIABILITIES

Current liabilities (payable from current assets):

Accounts payable	111,599
Accrued liabilities	41,926
Retainage payable	6,366
Deferred revenue	15,409
Total current liabilities (payable from current assets)	<u>175,300</u>

Current liabilities (payable from restricted assets):

Customer deposits	59,500
Accrued interest on bonds	30,289
Current portion of long term debt	193,400
Total current liabilities (payable from restricted assets)	<u>283,189</u>
Total current liabilities	458,489

Noncurrent liabilities:

Revenue bonds payable	<u>13,425,283</u>
Total liabilities	<u>13,883,772</u>

Deferred inflows of resources	<u>-</u>
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NET POSITION

Net investment in capital assets	11,417,312
Restricted for debt service	636,273
Unrestricted	<u>1,006,896</u>
Total net position	<u>\$ 13,060,481</u>

The accompanying notes are an integral part of the basic financial statements.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012

Operating revenues:	
Charges for services -	
Water sales	\$ 2,119,846
Penalties	37,088
Reconnection fees	50,241
Meter fees	109,723
Other fees	1,469
Miscellaneous	19,231
Total operating revenues	<u>2,337,598</u>
Operating expenses:	
Salaries	379,987
Payroll taxes	7,337
Group and life insurance	56,814
Retirement	53,536
Insurance	69,983
Supplies	23,736
Telephone and utilities	85,623
Chemicals	106,811
Meter installation and reading	185,676
Depreciation and amortization	748,849
Professional fees	17,614
Maintenance and repairs	88,300
Automobile expense	25,678
Printing, postage and publications	47,800
Bad debt expense	13,476
Plant lease	5,550
Other	23,846
Total operating expenses	<u>1,940,616</u>
Operating income	<u>396,982</u>
Nonoperating revenues (expenses):	
Interest income	1,178
Gain on disposal of assets	6,393
Interest expense	(585,776)
Total nonoperating revenues (expenses)	<u>(578,205)</u>
Loss before contributions	(181,223)
Capital contributions	<u>719,147</u>
Change in net position	537,924
Net position, beginning	<u>12,522,557</u>
Net position, ending	<u>\$ 13,060,481</u>

The accompanying notes are an integral part of the basic financial statements.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Statement of Cash Flows
Year Ended December 31, 2012

Cash flows from operating activities:	
Receipts from customers	\$ 2,308,160
Payments to suppliers	(735,619)
Payments to employees and related costs	(466,803)
Other receipts	<u>19,231</u>
Net cash provided by operating activities	<u>1,124,969</u>
 Cash flows from noncapital financing activities:	
Increase in meter deposits, net	<u>3,050</u>
 Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(185,298)
Interest paid on long-term debt	(586,190)
Proceeds from sale of capital assets	6,393
Capital contributions	38,107
Acquisition and construction of capital assets	<u>(369,688)</u>
 Net cash used by capital and related financing activities	 <u>(1,096,676)</u>
 Cash flows from investing activities:	
Interest income	<u>1,178</u>
 Net increase in cash and cash equivalents	 32,521
 Cash and cash equivalents, beginning of period	 <u>1,445,049</u>
 Cash and cash equivalents, end of period	 <u>\$ 1,477,570</u>

(continued)

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Statement of Cash Flows (Continued)
Year Ended December 31, 2012

Reconciliation of operating income to net cash
provided by operating activities:

Operating income	\$ 396,982
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	748,849
Provision for bad debts	11,491
(Increase) decrease in operating assets	
Receivables, gross	(12,555)
Prepaid expenses	(41,301)
Increase (decrease) in operating liabilities	
Accounts payable	(7,188)
Accrued liabilities	26,344
Deferred revenue	2,347
Net cash provided by operating activities	<u>\$ 1,124,969</u>

Cash and cash equivalents, end of period -

Current	\$ 751,508
Restricted	726,062
	<u>\$ 1,477,570</u>

Noncash investing, capital, and financing activities:

Capital assets contributed	<u>\$ 653,589</u>
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The accompanying notes are an integral part of the basic financial statements.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

The financial statements of Vermilion Parish Waterworks District No. 1 (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the District's accounting policies are described below.

A. Financial Reporting Entity

The District was created in 1986 under the provisions of Louisiana Revised Statutes 33:3811, for the purpose of providing water to the rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Because the Vermilion Parish Police Jury appoints the District's governing body, the District was determined to be a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the governmental entity with oversight responsibility. The accompanying financial statements present information only on the proprietary fund maintained by the District and do not present information on the Vermilion Parish Police Jury, the general government services provided by that governmental entity, or the other governmental entities that comprise the financial reporting entity.

B. Basis of Presentation

The accompanying basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities and as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

C. Fund Accounting

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District maintains only one fund and it is described below:

Proprietary Fund –

Enterprise Fund

The Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The enterprise fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The proprietary fund statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized in accordance with the requirements of GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions.”

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits. They are stated at cost, which approximates market. See Note (2) for other GASB No. 3 disclosures as amended by GASB No. 40.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Enterprise fund activities report customer's utility service receivables as their major receivables. This receivable is reported net of an allowance for doubtful accounts. The allowance amount at December 31, 2012 is \$11,491.

Unbilled receivables resulting from services rendered between the date of meter reading and billing and the end of the month, are recorded at year-end.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. They are reported at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the year was \$585,776, none of which was capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Utility System and Improvements	40 years
Equipment	5-10 years

Deferred Outflows of Resources and Deferred Inflows of Resources

In some instances, the GASB requires a government to delay recognition of decreases in net position as expenditures until a future period. In other instances, governments are required to delay recognition of increases in net position as revenues until a future period. In these circumstances, deferred outflows of resources and

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

deferred inflows of resources result from the delayed recognition of expenditures or revenues, respectively.

Equity Classifications

In the Proprietary Fund, equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in either of the other two categories of net position.

F. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

H. Restricted or Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

I. Bond Issuance Costs

Bond issuance costs are deferred and amortized over the terms of the bonds to which they apply.

J. Reclassifications

Certain amounts in 2011 have been reclassified to conform with the 2012 presentation.

(2) Cash and Cash Equivalents

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in certificates and time deposits of the state banks organized under Louisiana law and national banks having principal offices in Louisiana. At December 31, 2012 the District had cash and cash equivalents (book balances) totaling \$1,477,570 as follows:

Demand deposits	<u>\$1,477,570</u>
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Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or will not be able to recover the collateral securities that are in the possession of an outside party. These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the pledging financial institution. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the financial institution. These securities are held in the name of the pledging financial institution in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at December 31, 2012, are as follows:

Bank balances	<u>\$ 1,517,333</u>
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At December 31, 2012, the deposits are secured as follows:

Federal deposit insurance	250,000
Pledged securities	<u>1,267,333</u>
Total	<u>\$ 1,517,333</u>

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

(3) Receivables

Receivables at December 31, 2012 of \$307,680, consist of the following:

Accounts, net	\$ 171,208
Unbilled water	109,021
Grants	<u>27,451</u>
Totals	<u>\$ 307,680</u>

The aging of the Accounts Receivable is as follows:

Current	\$ 144,205
0 - 30 days	19,906
31 - 60 days	1,715
Over 60 days	<u>5,382</u>
Total	<u>\$ 171,208</u>

(4) Restricted Assets

Restricted assets consisted of the following at December 31, 2012:

Revenue bond and interest sinking account	\$ 64,291
Revenue bond reserve account	255,502
Revenue bond contingency account	255,502
Revenue bond short lived asset account	91,267
Customer deposits	<u>59,500</u>
Total restricted assets	<u>\$ 726,062</u>

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

(5) Capital Assets

A summary of the District's capital assets at December 31 follows:

	Beginning Balance 01/01/12	Increases	Decreases	Ending Balance 12/31/12
Capital assets not being depreciated:				
Land	\$ 100	\$ -	\$ -	\$ 100
Construction in process	148,831	361,255	317,466	192,620
Capital assets being depreciated:				
Treatment plants and buildings	394,941	7,709	-	402,650
Furniture, fixtures and equipment	1,224,811	16,576	29,921	1,211,466
Water distribution system	<u>26,842,972</u>	<u>974,263</u>	<u>-</u>	<u>27,817,235</u>
Totals	<u>28,611,655</u>	<u>1,359,803</u>	<u>347,387</u>	<u>29,624,071</u>
Less: Accumulated depreciation for				
Treatment plants and buildings	49,012	10,176	-	59,188
Furniture, fixtures and equipment	264,243	48,957	29,921	283,279
Water distribution system	<u>3,557,924</u>	<u>687,685</u>	<u>-</u>	<u>4,245,609</u>
Total accumulated depreciation	<u>3,871,179</u>	<u>746,818</u>	<u>29,921</u>	<u>4,588,076</u>
Capital assets, net	<u>\$ 24,740,476</u>	<u>\$ 612,985</u>	<u>\$ 317,466</u>	<u>\$ 25,035,995</u>

(6) Changes in Long-Term Debt

The following is a summary of debt transactions for Water Revenue Bonds of the District for the year ended December 31, 2012:

Long-term debt payable at December 31, 2011	\$ 13,803,981
Long-term debt issued	-
Long-term debt retired	<u>(185,298)</u>
Long-term debt payable at December 31, 2012	\$ 13,618,683
Less Portion of Long-term debt due within one year	<u>(193,400)</u>
Portion of Long-term debt due in more than one year	<u>\$ 13,425,283</u>

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

Long-term debt payable at December 31, 2012 is composed of the following issues:

\$1,530,000 Water Revenue Bonds issued October 12, 2000 in two series as follows:

\$1,368,000, due in monthly installments of \$6,430 over forty years starting November 2001 through October 2040; interest at 4.75 percent	\$ 1,189,040
\$162,000, due in monthly installments of \$789 over forty years starting November 2001 through October 2040; interest at 5 percent	141,610
\$1,256,000 Water Revenue Bonds, Series 2002, issued November 26, 2002, due in monthly installments of \$5,803 over forty years starting December 2003 through November 2042; interest at 4.625 percent	1,125,854
\$2,265,000 Water Revenue Bonds, Series 2004A, issued February 19, 2004, due in monthly installments of \$10,283 over forty years starting March 2005 through February 2044; interest at 4.5 percent	2,048,671
\$2,193,000 Water Revenue Bonds, Series 2004B, issued April 14, 2004, due in monthly installments of \$9,781 over forty years starting May 2005 through April 2044; interest at 4.375 percent	1,984,797
\$725,000 Water Revenue Bonds, Series 2005, issued January 14, 2005, due in monthly installments of \$3,292 over forty years starting February 2006 through April 2045; interest at 4.5 percent	669,031
\$4,572,000 Water Revenue Bonds, Series 2009 issued November 3, 2009, due in monthly installments of \$20,025 over forty years starting November 2010 through October 2049; interest at 4.25 percent	4,467,905
\$2,049,000 Water Revenue Bonds, Series 2010 issued November 3, 2009, due in monthly installments of \$7,889 over forty years starting October 12, 2010 through October 2049; interest at 3.375 percent	1,991,775
	<u>\$ 13,618,683</u>

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

The annual requirements to amortize all debt outstanding at December 31, 2012 is as follows:

	Principal	Interest	Total
2013	\$ 193,400	\$ 578,087	\$ 771,487
2014	201,873	569,615	771,488
2015	210,726	560,762	771,488
2016	219,968	551,519	771,487
2017	229,623	541,864	771,487
2018 - 2022	1,308,559	2,548,880	3,857,439
2023 - 2027	1,622,811	2,234,628	3,857,439
2028 - 2032	2,013,330	1,844,109	3,857,439
2033 - 2037	2,498,797	1,358,642	3,857,439
2038 - 2042	2,887,118	765,328	3,652,446
2043 - 2047	1,655,642	270,253	1,925,895
2048 - 2049	576,836	21,795	598,631
Total	<u>\$ 13,618,683</u>	<u>\$ 11,845,482</u>	<u>\$ 25,464,165</u>

(7) Flow of Funds; Restrictions on Use - Utility Revenues

Under the terms of the various bond indentures on outstanding Water Revenue Bonds, all income and revenue of every nature, earned or derived from operations of the Water System are pledged and dedicated to the retirement of said bonds and are to be deposited in funds in the following order of priority and for the following express purposes:

All revenue must be deposited into a "Water Revenue Fund" to be first used for the payment of all reasonable and necessary expenses of operating and maintaining the System.

A "Water Revenue Bond and Interest Sinking Fund" (the "Sinking Fund") shall be established and maintained by transferring monthly an amount sufficient to pay promptly and fully the principal of and the interest on the Bonds on or before the 20th day of each month of each year payment is required on the Bonds.

A "Water Revenue Bond Reserve Fund" (the "Reserve Fund") shall be established and maintained by transferring monthly, on or before the 20th day of each month of each year, a sum at least equal to 5% of the amount to be paid into the Sinking Fund. Payments into the Reserve Fund shall continue until such time as there is accumulated in the Reserve Fund a sum equal to the highest combined principal and interest falling due in any year on the bonds payable from the Sinking Fund. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

A "Water Depreciation and Contingency Fund" (the "Contingency Fund") shall be established and maintained to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring monthly, on or before the 20th day of each month of each year, a sum at least equal to 5% of the amount to be paid into the Sinking Fund. When a sum equal to the Debt Service Requirement has been accumulated in the Reserve Fund, the monthly payments into the Contingency Fund shall be increased to an amount equal to 10% of the amount being paid into the Sinking Fund.

A "Water Short-Lived Assets Depreciation Fund" (the "Short-Lived Assets Fund") shall be established and maintained to provide for the maintenance and replacement of short lived assets of the System, by transferring monthly, on or before the 20th day of each month of each year, a sum of \$5,106 until \$327,500 is on deposit.

All of the revenues received in any fiscal year and that are not required to be paid into any of the above noted funds in such fiscal year shall be regarded as surplus and may be used for any lawful purpose.

All required transfers were made for the year ended December 31, 2012.

(8) Capital Contributions

Capital contributions consisted of the following at December 31, 2012:

Contribution of capital assets from the Vermillion Parish Police Jury	\$ 635,089
State of Louisiana for bridge project	35,958
Grant monies from the State of Louisiana passed through Vermilion Parish Police Jury	29,600
Contribution from local sources	<u>18,500</u>
Total	<u>\$ 719,147</u>

(9) Retirement Commitments

A. Parochial Employees Retirement System of Louisiana

The system provides retirement, disability and death benefits to plan members and beneficiaries. Benefits under the system are established and amended by Louisiana state statutes. A publicly available financial report that includes financial statements and required supplemental information may be obtained by writing to the Parochial Employees' Retirement System, P.O. Box 14619, Baton Rouge, Louisiana 70898-4619, (225) 928-1361.

All employees working at least 28 hours per week are eligible to participate. Under Plan A, members are required by state statute to contribute 9.5% of their annual covered salary and the employer is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. Contributions

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

to the retirement system also include one-fourth of 1% of the taxes shown to be collectible by the tax rolls of the parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active plan members of each plan. The employer's contributions to the retirement system for the years ending December 31, 2012, 2011, 2010 were \$53,536, \$51,219, and \$48,184, respectively, equal to the required contributions for each year.

(10) Compensation of Board Members

The following is a list of the commissioners and compensation paid for the year ended December 31, 2012.

Hubert Faulk, Chairman	\$ 2,400
Kevin Georgia	780
Ritter Trahan	840
Norman Duhon	840
Danny Richard	720
	<hr/> <u>\$ 5,580</u>

(11) Risk Management

The District is exposed to risks of loss in the areas of general liability, property hazards and worker's compensation. All of these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance during the year.

(12) Pending Litigation

There is no litigation pending against the Vermilion Parish Waterworks District No. 1 at December 31, 2012.

(13) Leases

The District has the following leases in effect for the year ended December 31, 2012:

- a. Lease of property to operate the main water plant in Maurice, Louisiana. The lease originated December 16, 1999, with an initial term of ten (10) years and was subject to a statutory extension of thirty one (31) years. The lease calls for an annual lease payment of \$300, due at the beginning of each year.
- b. Lease of property to operate the water system in Intracoastal City, Esther, and Forked Island (IEF), Louisiana. The lease was entered into August 14, 2001 with a term of forty (40) years. At the end of the period, there is an option to renew for an additional term of forty (40) years. The lease calls for monthly lease payments of \$400.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

- c. Lease of property to operate the water system in Kaplan, Louisiana. The lease was entered into February 24, 2005. The first payment was due and payable at the time the District completed the closing procedures with USDA – Rural Development for the project which was in the 2011 fiscal year. The lease has an initial term of ten years and is subject to a statutory extension of thirty one (31) years. The lease calls for an annual lease payment of \$450.

Total lease payments made for the year ending December 31, 2012 was \$5,550.

The minimum future lease payments under this obligation are as follows:

2013	\$ 5,550
2014	5,550
2015	5,550
2016	5,550
2017	5,550
2018 - 2022	27,750
2023 - 2027	27,750
2028 - 2032	27,750
2033 - 2037	27,750
2038 - 2042	23,950
2043 - 2047	2,250
2048 - 2052	1,800
	<u>\$ 166,750</u>

(14) Subsequent Event

District evaluated subsequent events through June 12, 2013, the date which the financial statements were available to be issued.

(15) New Accounting Pronouncements

During the fiscal year ended December 31, 2012, the District adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Notes to Basic Financial Statements (Continued)

In April 2012, the Government Accounting standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement clarifies the appropriate reporting of deferred outflows of resources or deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB No. 65 must be implemented by the District for the year ending December 31, 2013. The effect of implementation on the District's financial statements has not yet been determined.

SUPPLEMENTARY INFORMATION

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Schedule of Number of Utility Customers
December 31, 2012

Records maintained by the Vermillion Parish Waterworks District No. 1 indicated the following number of customers were being serviced during the month of December, 2012

Residential	6,251
Commercial	<u>236</u>
	<u>6,487</u>

The water rates of the District are as follows:

Residential rates:

\$14.00 per month for the first 2,000 gallons, then
\$ 3.75 per 1,000 gallons or part thereof over 2,000 gallons

Commercial rates:

\$14.00 per month for the first 2,000 gallons, then
\$ 3.75 per 1,000 gallons or part thereof over 2,000 gallons

Penalty for paying water bill after due date:

Additional ten percent (10%) of total water charge

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Schedule of Insurance in Force
December 31, 2012

Coverage Provided For	Limits of Coverage (in dollars)	Description of limits	Expiration Date
Employee Dishonesty Bond	\$ 800,000		04/03/13
Commercial General Liability	\$ 1,000,000	Bodily injury and property damage/occurrence	12/14/13
	\$ 1,000,000	Personal and advertising injury limit/occurrence	
	\$ 1,000,000	Damage to rented premises/occurrence	
	\$ 1,000,000	Employee benefits liability/occurrence	
	\$ 3,000,000	Aggregate on each coverage above	
	\$ 10,000	Medical payments	
	\$ 1,000,000	Terrorism - aggregate	
Commercial Property	\$ 6,862,494	Blanket limit	12/14/13
Commercial Auto Coverage	\$ 1,000,000	Liability	12/14/13
	\$ 1,000,000	Uninsured motorist	
Workers Compensation	\$ 1,000,000	Bodily injury	12/14/13
Commercial Flood Coverage	\$ 317,200	Buildings	04/19/13
	\$ 113,700	Contents	
Crime Coverage	\$5,000-\$100,000	Various Theft	12/14/13
Wrongful Acts and Professional Liability	\$ 1,000,000	Per claim	12/14/13
	\$ 3,000,000	Aggregate	

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Comparative Statements of Net Position
December 31, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	\$ 751,508	\$ 853,904
Receivables, net of allowance for uncollectibles	307,680	279,166
Prepaid expenses	45,829	4,528
Total current assets	<u>1,105,017</u>	<u>1,137,598</u>
Restricted assets -		
Revenue bond and interest sinking account	64,291	64,290
Revenue bond reserve account	255,502	216,729
Revenue bond contingency account	255,502	216,728
Revenue bond short lived asset account	91,267	36,948
Customer deposits	59,500	56,450
Total restricted assets	<u>726,062</u>	<u>591,145</u>
Capital assets, net	<u>25,035,995</u>	<u>24,740,476</u>
Bond issue costs, net	<u>77,179</u>	<u>79,210</u>
Total assets	<u>26,944,253</u>	<u>26,548,429</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	111,599	106,092
Accrued liabilities	41,926	15,584
Retainage payable	6,366	-
Deferred revenue	15,409	13,062
Total current liabilities (payable from current assets)	<u>175,300</u>	<u>134,738</u>
Current liabilities (payable from restricted assets):		
Customer deposits	59,500	56,450
Accrued interest on bonds	30,289	30,703
Current portion of long term debt	193,400	185,280
Total current liabilities (payable from restricted assets)	<u>283,189</u>	<u>272,433</u>
Total current liabilities	458,489	407,171
Noncurrent liabilities:		
Revenue bonds payable	<u>13,425,283</u>	<u>13,618,701</u>
Total liabilities	<u>13,883,772</u>	<u>14,025,872</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	11,417,312	10,936,495
Restricted for debt service	636,273	503,992
Unrestricted	<u>1,006,896</u>	<u>1,082,070</u>
Total net position	<u>\$ 13,060,481</u>	<u>\$ 12,522,557</u>

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Charges for services -		
Water sales	\$ 2,119,846	\$ 2,121,547
Penalties	37,088	39,242
Reconnection fees	50,241	47,340
Meter fees	109,723	99,450
Other fees	1,469	2,499
Miscellaneous	19,231	2,295
Total operating revenues	<u>2,337,598</u>	<u>2,312,373</u>
Operating expenses:		
Salaries	379,987	365,301
Payroll taxes	7,337	6,483
Group and life insurance	56,814	57,638
Retirement expenses	53,536	51,219
Insurance	69,983	68,534
Supplies	23,736	30,246
Telephone and utilities	85,623	94,154
Chemicals	106,811	101,787
Meter installation and reading	185,676	180,084
Depreciation and amortization	748,849	722,008
Professional fees	17,614	37,881
Maintenance and repairs	88,300	55,653
Automobile expense	25,678	36,800
Printing, postage and publications	47,800	48,977
Unemployment	-	7,554
Bad debt expense	13,476	4,271
Plant lease	5,550	5,550
Other	23,846	25,012
Total operating expenses	<u>1,940,616</u>	<u>1,899,152</u>
Operating income	<u>396,982</u>	<u>413,221</u>
Nonoperating revenues (expenses):		
Interest income	1,178	1,543
Gain on disposal of assets	6,393	1,410
Interest expense	(585,776)	(605,548)
Total nonoperating revenues (expenses)	<u>(578,205)</u>	<u>(602,595)</u>
Loss before contributions	(181,223)	(189,374)
Capital contributions	719,147	902,923
Change in net position	537,924	713,549
Net position, beginning	12,522,557	11,809,008
Net position, ending	<u>\$ 13,060,481</u>	<u>\$ 12,522,557</u>

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER MATTERS**

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Russell F. Champagne, CPA*
Victor R. Slaven, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Mixon, CPA*
Penny Angelle Scruggins, CPA
Christine C. Doucet, CPA

Wanda F. Arcement, CPA,CVA
Allen J. LaBry, CPA
Albert R. Leger, CPA,PFS,CSA*
Marshall W. Guidry, CPA
Stephen R. Moore, Jr., CPA,PFS,CFP®,ChFC®*
James R. Roy, CPA
Robert J. Metz, CPA
Alan M. Taylor, CPA
Kelly M. Doucet, CPA
Cheryl L. Bartley, CPA
Mandy B. Self, CPA
Paul L. Delcambre, Jr., CPA
Kristin B. Dauzat, CPA
Matthew E. Margaglio, CPA
Jane R. Hebert, CPA
Bryan K. Joubert, CPA
Stephen J. Anderson, CPA
W. Jeffrey Lowry, CPA

Retired:
Conrad O. Chapman, CPA* 2006
Tynes E. Mixon, Jr., CPA 2011
P. Troy Courville, CPA* 2013

* A Professional Accounting Corporation

OFFICES

183 South Beadle Rd.
Lafayette, LA 70508
Phone (337) 232-4141
Fax (337) 232-8660

450 East Main Street
New Iberia, LA 70560
Phone (337) 367-9204
Fax (337) 367-9208

113 East Bridge St.
Breaux Bridge, LA 70517
Phone (337) 332-4020
Fax (337) 332-2867

200 South Main Street
Abbeville, LA 70510
Phone (337) 893-7944
Fax (337) 893-7946

1234 David Dr. Ste 203
Morgan City, LA 70380
Phone (985) 384-2020
Fax (985) 384-3020

1013 Main Street
Franklin, LA 70538
Phone (337) 828-0272
Fax (337) 828-0290

408 West Cotton Street
Ville Platte, LA 70586
Phone (337) 363-2792
Fax (337) 363-3049

133 East Waddil St.
Marksville LA 71351
Phone (318) 253-9252
Fax (318) 253-8681

332 West Sixth Avenue
Oberlin, LA 70655
Phone (337) 639-4737
Fax (337) 639-4568

1428 Metro Drive
Alexandria, LA 71301
Phone (318) 442-4421
Fax (318) 442-9833

WEB SITE
WWW.KCSRCPAS.COM

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
Vermilion Parish Waterworks District No. 1
Maurice, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Vermilion Parish Waterworks District No. 1, a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Vermilion Parish Waterworks District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermilion Parish Waterworks District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Parish Waterworks District No. 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of current and prior year audit findings and management's corrective action plan, we identified a certain deficiency in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Vermilion Parish Waterworks District No. 1's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as item 12-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermilion Parish Waterworks District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Vermilion Parish Waterworks District No. 1's Response to Finding

The Vermilion Parish Waterworks District No. 1's response to the finding identified in our audit is described in the accompanying schedule of current and prior year audit findings and management's corrective action plan. Vermilion Parish Waterworks District No. 1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Although the intended use of this report maybe limited, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
June 12, 2013

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended December 31, 2012

Part I: Current Year Findings and Management's Corrective Action Plan

A. Internal Control Over Financial Reporting

12-1 Inadequate Segregation of Accounting Functions

CONDITION: The Vermilion Parish Waterworks District No. 1 did not have adequate segregation of functions over cash collections.

CRITERIA: SAS109, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, AU§314.43 defines internal control as follows:

“Internal control is a process, affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.”

Additionally, Statements on Standards for Attestation Engagements (SSAE) AT§501.03 states:

“An entity's internal control over financial reporting includes those policies and procedures that pertain to an entity's ability to record, process, summarize, and report financial data consistent with the assertions embodied in either annual financial statements or interim financial statements, or both.”

CAUSE: The cause of the condition is the fact that the District does not have a sufficient number of staff performing administrative and financial duties so as to provide adequate segregation of accounting and financial duties.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

MANAGEMENT'S CORRECTIVE ACTION PLAN: The District has provided as much segregation as possible with the resources available.

VERMILION PARISH WATERWORKS DISTRICT NO. 1
Maurice, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2012

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

11-1 Inadequate Segregation of Accounting Functions

CONDITION: The Vermilion Parish Waterworks District No. 1 did not have adequate segregation of functions within the accounting system.

RECOMMENDATION: Based upon the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

CURRENT STATUS: Unresolved. See item 12-1.

11-2 Inadequate Controls over Collections and Deposits

CONDITION: During inquiry of client, it was noted that a deposit appeared to be missing and had never made it to the bank.

RECOMMENDATION: It is recommended that the District's management implement internal control procedures over collections to ensure that all collections are accounted for and deposited daily.

CURRENT STATUS: Resolved.